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UNDERSTANDING HUGO

Venezuelan President Hugo Chavez has arrogated to his office an extraordinary amount of power. He insist he did so to fight corruption and remake his country's ***economy*** and social fabric. Critics want to know: Is he a democrat or despot at heart?

EVERY SUNDAY VENEZUELANS CAN TUNE IN TO A POPULAR national call-in radio show, Alo Presidente! For upwards of four hours, President Hugo Chavez holds court -- indulging in personal reminiscences, lambasting perceived enemies, announcing news of government appointments and occasionally critiquing movies. A recent recommendation : Manuela Saenz, Liberator of the Liberator, a saga about the mistress of Simon Bolivar, the fame revolutionary.

During one show in late October, listeners were treated to something special. Chavez was joined at the mike by Cuban strongman Fidel Castro, in town for a five-day visit during which he played baseball with Chavez, praised him as a fellow soldier in the war against oppression and bagged a deal to get subsidized oil for Cuba.

The big surprise came when Castro, in the midst of their jovial love fest, decided to offer some governing tips to his host, who enjoys rushing about the country attending personally to every problem that comes to his attention "Chavez cannot be the mayor to all Venezuelans," admonished Castro. "He needs cadres also, to back him up in this battle that he is fighting."

Chavez offered up a tepid defense. "I don't enjoy drowning in bureaucracy or being in the office every day," he replied.

If you are wondering what kind of leader takes advice on how to run his country from the aging Bad Boy of the Western World, the last dinosaur of the Cold War, you are not alone. Nearly two years into his administration, the democratically elected Chavez remains an enigma to his own people and to his counterparts in foreign capitals.

He talks like a populist revolutionary and seems to take every opportunity to thumb his nose at the U.S. An avowed democrat, he led a bloody, unsuccessful coup against the government in 1992. That effort earned him

two years in prison, where he plotted the campaign that won him the presidency in 1998. Once installed in Miraflores Palace, Chavez promptly set about eradicating the country's political institutions and consolidating power in his own office. He dismantled ***Venezuela***'s congress and judiciary and pushed through a. new constitution, which, among other things, extended the presidential term to six years from five and allowed consecutive terms. Chavez secured "enabling" powers that let him write new laws without so much as a rubber stamp from Congress.

Yet Chavez has also taken steps to end the corruption that, along with oil, has lubricated Venezuelan politics and ***economics*** for half a century.

A champion of social justice and increased domestic spending, he has shown greater fiscal prudence than more conservative predecessors. A fierce critic of the neoliberal dogmas of open markets, he has pushed through the liberalization programs that he inherited. And he has the confidence -- or the naivete -- to allow himself to be criticized on public radio.

Chavez has succeeded in restoring a sense of pride among many Venezuelans, bringing his country back onto center stage as a driving force in OPEC'S effort to control world oil prices. He openly aspires to a leadership role in Latin America. But his brand of authoritarian control is out of favor, with one country after another in the region moving in the direction of increased political freedom -- whether in Chile, where Socialist Ricardo Lagos took office in 1999, or in Mexico, where conservative Vicente Fox was sworn in this month, ending 71 years of one party rule. Even Peru's democrat-turned-autocrat Alberto Fujimori has left office, with new elections scheduled for April.

Complex and contradictory, a charismatic figure with a common touch, Hugo Chavez, like many controversial figures, strikes different people in radically different ways. To the millions of slum dwellers in Caracas, he is a hero and savior. To ***Venezuela***'s entrenched elite, he is a palurdo, a lower-class wannabe upsetting the old order. To nervous observers overseas, he is a fatigue-clad throwback, sans Cohiba, to a discredited era of empty revolutionary cant.

As Colombian novelist Gabriel Garcia Marquez wrote after an encounter with Chavez last year: "I was overwhelmed by the feeling that I had just been traveling with two opposing men. One to whom the caprices of fate had given an opportunity to save his country. The other an illusionist, who could pass into the history books as just another despot."

Close colleagues say the president is simply misunderstood, though they

understand the confusion. "Chavez is a very strong leader, very demanding and not easy to work for," says Planning Minister and friend Jorge Giordani. "But he listens a lot. There is an external image of Chavez that doesn't correspond to the internal."

Ask Chavez why he provokes such conflicting responses and he replies with a conviction that can border on the messianic, as he portrays himself as merely the instrument of inevitable historical change. "It's not because I have done anything personally, but because at this moment of our small history, the forces of transformation are centered in me," Chavez told Institutional Investor in a wide-ranging interview last month in Caracas (see box, page 50).

More concretely, he believes his critics simply do not understand his country's history -- or the political and ***economic*** context of modern ***Venezuela***. In short, he insists, what passed for democracy in ***Venezuela*** before was a sham -- with ***economic*** and political power concentrated in a small elite. "Some say I am pursuing a dictatorial model in ***Venezuela***. Some say I am concentrating power," he acknowledges. "The reality is that we are leaving behind a tyranny, a system that concentrated power in a few hands, that was disguised with a mask of democracy."

To reach what he calls true participatory democracy requires, in the interim, the tough reform measures he has taken to root out institutionalized corruption and injustice. But even in the best-case scenario, his critics contend, it's a dangerous plan to pave the road to freedom with the stones of autocracy.

Chavez came to power in February 1999 promising to remake ***Venezuela***'s oil-driven ***economy*** from the ground up and to position Caracas at the center of a politically vigorous and cohesive Latin America. To fulfill his promises, he outlined an ambitious five-part program. Most broadly, he envisions a "Bolivarian democracy" -- named for the Caracas-born Bolivar, who liberated ***Venezuela***, Bolivia, Colombia, Ecuador and Peru from Spanish rule early in the 19th century. Chavez's goal is to wipe out every trace of the incestuous system created with the 1958 Pact of Punto Fijo, whereby ***Venezuela***'s two major political parties essentially agreed to take turns running the country, while a small, white elite controlled its major institutions.

In addition, he proposes to create a diversified, "humanist" ***economy***. And he wants to invest heavily in education, health and security to improve the living standards of the 80 percent of Venezuelans who live in poverty. He also has an ambitious plan to repopulate the center and south of the country through job creation, reversing the migration to the northern cities. Last, on the

international front, Chavez says he will unify Latin America's leaders and form a new sphere of influence to counterbalance the U.S.

Venezuelans have heard much of this before, of course. During the oil boom of the 1970s, then-president Carlos Andres Perez also promised to modernize the country and use oil wealth to raise living standards for all. But the well-worn rhetoric plays well with the poor, among whom Chavez commands fierce loyalty, not least because of his humble origins. "When they look at Chavez on television, they see themselves," says Luis Davila, chief financial officer of state-owned oil giant Petroleos de ***Venezuela***, or PDVSA.

"Chavez is the best president we have ever had," says Godofredo Perez, a part-time hotel employee in Caracas. "He has come from below; he is with the people."

Moreover, things have improved, at least on the margins, under Chavez, who took office at a dire time. The ***economy*** was still reeling in the aftermath of Asia's financial crisis, which had helped drive the price of oil down to $8 a barrel. After shrinking by 7.2 percent in 1999, the ***economy*** is forecast to grow by about 3 percent this year. Inflation, which was 30 percent in 1998, is down to 15 percent. As the ***economy*** has strengthened, the fiscally cautious Chavez has opened the oil spigot: In September he announced an ambitious plan to spend $2.1 billion, or the equivalent of 6.4 percent of the 2001 budget, on new schools, roads and hospitals

But ***Venezuela*** remains a mess. Even with oil prices above $30 a barrel, the country must grapple with huge ***economic*** and social problems. In terms of wealth distribution, it's the world's third-least-equitable country, after South Africa and Brazil. Four fifths of the population live miserably, most of them in crowded shantytowns, or ranchos, in and around Caracas and other coastal cities.

With unemployment at 13 percent, the poor depend on the underground ***economy***, which provides more than 40 percent of the country's jobs, for survival. The main shopping street in Caracas is packed with sidewalk vendors selling everything from books to brassieres. Young children weave through the crowds begging or hawking balloons and trinkets. The wealthy, meanwhile, live in compounds surrounded by electrified fences and razor wire and patrolled by security guards, Every Monday the newspapers report the number of people -- often in triple digits --murdered over the weekend, mostly victims of gang wars. Women don't drive alone at night.

Negative real interest rates on deposits encourage better-off Venezuelans to keep their money overseas; many of the middle class maintain bank accounts

in Miami. Local banks, worried about political ***stability*** and an overvalued currency are stingy with credit. Labor productivity is falling in both the oil and nonoil sectors of the ***economy***, and the nonoil sector is actually shrinking.

Though the ***economy*** is growing again, capital flight is expected to exceed last year's $4 billion. Spreads on ***Venezuela***'s sovereign debt are second among emerging markets only to Ecuador's -- and Ecuador defaulted on its external debt last year. Last December Standard & Poor's downgraded ***Venezuela*** from single B+ to B.

Foreign investors are frustrated -- and frightened -- that the political part of ***Venezuela***'s revolution, which was to have ended months ago, shows no signs of winding down. Indeed, Chavez seems obsessed with tightening his grip on government. He has called seven special elections and referendums, dissolving the old Congress and creating a new constitution that beef's up executive powers. He has appointed military men to important positions, including the minister of the Interior and Justice and the president of PDVSA and its U.S. refining subsidiary Citgo.

Most recently, his new Congress approved yet another referendum, for December 3, to decide whether the country's union leaders should be suspended while elections for new ones are organized. Although the unions have for years been seen as corrupt facilitators for whatever party happens to be in power, the move is seen by some as proof of Chavez's compulsion to destroy institutions instead of reforming them. (The attorney general last month asked the Supreme Court to suspend the referendum because it violates eight articles of ***Venezuela***'s constitution.)

The president's brand of foreign policy continues to raise eyebrows. Besides his chummy, in-your-face relationship with Castro, friendly visits to Libya's Muammar Qaddafi and Iraq's Saddam Hussein as part of a tour of OPEC states last year infuriated Washington. Now he is declining to act the good soldier in the U.S. antidrug program Plan Colombia. Like Brazilian President Fernando Henrique Cardoso, he opposes the plan, which he frets could destabilize the Venezuelan-Colombian border and create refugee problems.

At home Chavez remains hugely popular among the poor; his approval rating, according to a poll by Consultores 21, is at 69 percent, up 10 percentage points since the end of June. And he has achieved this despite some notable failures: A full year after catastrophic floods in December 1999 killed 30,000 people -- mostly urban shantytown dwellers -- and left thousands more homeless, the government has provided permanent housing for only 7,000 of the 20,000 families it relocated.

But he has alienated Venezuelans at other levels of society. In the wake of Castro's October visit, thousands of middleclass workers and teachers took to the streets of Caracas demanding overdue pension payments and wage increases. Why should Cuba get cheap oil while Venezuelans go hungry, they wanted to know. And why is Chavez cozying up to Cuba when ***Venezuela*** needs countries like the U.S. far more?

Some in the military resent being put to work as menial laborers and social workers as part of Chavez's antipoverty program, Plan Bolivar 2000. Meanwhile, the middle and upper classes can't relate to a president who, they believe, looks and speaks like an uneducated, uncultured member of the lower orders. Worse, they see clear dictatorial tendencies in Chavez.

"Chavez has to fight to not be pulled down by his own authoritarianism," says Teodoro Petkoff, a leftist and former minister of Planning who as editor of the popular Tal Cual afternoon newspaper is one of the president's most influential critics. "It's like Dr. Jekyll and Mr. Hyde, Robespierre and Danton, the Bolsheviks and the Mensheviks."

CHAVEZ'S HUMBLE ORIGINS MAY EXPLAIN IN PART why people react to him so viscerally. He really is a man of the people, from his poor background to the darkness of his skin. Hugo Chavez Frias was born in 1954 to schoolteachers in the largely agricultural southwestern state of Barinas and inherited a sense of class justice. One of his heroes, his paternal great-great-grandfather, Colonel Pedro Perez Perez, was a soldier-revolutionary in Ezequiel Zamora's mid-19th-century war against the local landed elite. A devout Catholic and talented athlete, Chavez as a youth aspired, like his pal Castro, to pitch in the U.S. major leagues. He attended the top baseball training program, Criollitos de ***Venezuela***, but gave up his dream and enrolled in the military academy at 17, where he played first base on the baseball team.

At the academy in Caracas, Chavez studied political science and history. After graduation in 1975 he was sent back to Barinas to join a counterinsurgency battalion charged with suppressing the few remaining holdouts of the widespread guerrilla war of the 1960s. The sight of young peasant recruits killing young peasant guerrillas disgusted him, he says. Just 23, Chavez formed a movement of his own, the Ejercito de Liberacion del Pueblo de ***Venezuela***. It didn't have much of a manifesto ("Our aim was to prepare for any eventuality," Chavez told Garcia Marquez years later in front of a microphone), and nothing came of it. But in 1982 Chavez formed the Movimiento Bolivariano Revolucionario 200, a political group within the army, planting the seeds for his coup attempt ten years later.

Venezuela was ripe for unrest for many reasons, but among them was the country's complicated relationship with oil, which has been a blessing and a curse ever since the first gusher near Lake Maracaibo in 1922 led to intensive commercial development. Oil underpins the country's ***economy***; today every dollar increase in the world price of oil adds $1 billion to government revenues annually. But this oil wealth has not cured social and ***economic*** woes. Rather, it has exacerbated longstanding injustices, institutionalized corruption and created unrealistic expectations. The 1973 oil crisis transformed an impoverished agricultural ***economy*** into an ostensibly wealthy member of OPEC, radically altering the country's self-perception. ***Venezuela*** became the world's No. 1 consumer of Scotch whiskey (it is No. 5 today) and the biggest consumer of pasta after Italy. Modern highways were built, and Venezuelans flocked from the impoverished interior to oil-producing regions around Maracaibo and the cities on the Caribbean coast.

Many Venezuelans came to believe that if they were not rich themselves, corruption was to blame. Politicians exploited this belief, promising, like magicians, to spread the wealth. The head magician during the 1970s was charismatic president Carlos Andres Perez, who nationalized the oil industry in 1975. After a fashion, he and his successors did spread the wealth. The unions got their cut, and the government channeled generous subsidies to the universities to keep leftist intellectuals employed and content. The people enjoyed cut-rate gas and an overvalued exchange rate that helped subsidize imports.

But when oil prices collapsed in the 1980s, Venezuelans woke up from their dream to a country suffering from crime, increasing poverty, unemployment, corruption and a growing underground ***economy***, all fertile ground for unrest.

Perez was reelected in 1988 on a populist platform, but once in power he signed a $4.5 billion loan agreement with the International Monetary Fund. Complying with ***IMF*** conditions, he immediately implemented a deeply unpopular austerity program -- including a hike in the price of gasoline.

That sparked a popular insurrection in Caracas in February 1989, the so-called Caracazo. The army killed hundreds of looters and rioters. Chavez himself was not called out -- he was confined to his barracks with German measles. But several of his comrades died in the confrontation, and the incident still looms in his consciousness as a tragic example of ***Venezuela***'s dysfunctionality.

The Caracazo served also to strengthen the resolve of Chavez and his fellow conspirators to launch a coup to topple Perez and what they viewed as the

corrupt army high command. But they had to bide their time until they had authority to muster their own troops. Their moment came in 1991, when Perez gave Chavez his first command -- a parachute battalion based near Caracas.

The coup began on February 3, 1992, with a successful takeover of the army barracks at Maracay, home of Chavez's battalion. Co-conspirators made similar strikes in other cities and actually occupied Valencia. Early the next morning, Chavez traveled with his troops to Caracas, setting up temporary headquarters in the Museo Historico Militar. The plan was to capture Perez at Miraflores Palace. But the attempt failed when Chavez's troops were beaten back. Casualties were relatively light: 14 soldiers died and about 130 soldiers and civilians were wounded. Within hours, Perez was on television announcing that the attempted coup was being put down.

Chavez surrendered soon afterward and was taken to prison. But first the government allowed him a minute on national TV to tell his co-conspirators in other parts of the country to lay down their arms. Chavez made an indelible impression in those few seconds. "The objectives we set for ourselves have not been achieved," he said, "por ahora." For now.

During his two years in Yare prison, Chavez worked on his master's degree in politics from Universidad Simon Bolivar. He also entertained a succession of visitors, members of the Venezuelan left. Among them was Planning Minister Giordani, then an ***economics*** professor at the Universidad Central de ***Venezuela***, who came every week to help Chavez with his thesis and to collaborate on a blueprint for a revolutionary government. Another pilgrim was Luis Miquilena, who would play a key role in organizing Chavez's presidential campaign.

Meanwhile, ***Venezuela***'s political system was falling apart. In November 1992 Perez survived another bloody coup attempt, during which Miraflores Palace was bombed by air force pilots. That December's regional and municipal elections saw major gains by left-wing parties. Perez had become a liability. In May 1993 Congress voted to allow the president to be brought to trial on charges that he had embezzled $17 million from the government. Perez was suspended from office. Rafael Caldera Rodriguez, a founder of the center-right Comite de Organizacion Politica Electoral Independiente, or Copei, ran as an independent and was elected in December to replace Perez. But the two parties' stranglehold on government had loosened under the pressure of a sick ***economy*** and endless corruption scandals.

When Chavez got out of prison in 1994 and took to the countryside to tout his movement, now called the Movimiento V Republica, his populist rhetoric fell

on receptive ears. Among the listeners was Castro, who gave Chavez a hero's welcome when he visited Havana that year -- a show of support that Chavez cherishes to this day.

In 1998 the Movimiento al Socialismo party announced its support for Chavez's presidential bid, and a group of leftist parties allied around his MVR won 34 percent of the seats in Congress. Terrified, the old guard joined forces. Copei abandoned its presidential candidate, former beauty queen Irene Saez, and Accion Democratica dropped its candidate, Luis Alfaro Ucero. Instead, both parties threw their weight behind an independent, Henrique Salas Romer. In December Chavez won the election with 56.2 percent of the vote, completing an improbable journey from prisoner to president in four years.

LIKE OTHER POPULISTS BEFORE HIM, CHAVEZ won the presidency by promising to modernize the country and bring ***Venezuela***'s natural wealth to the masses. His campaign played to voters' conviction that only a corrupt elite stood between them and prosperity. Chavez asked them to imagine a ***Venezuela*** cleansed of its outdated institutions and greedy politicians.

Chavez has certainly tackled the purge with gusto. In April 1999 he held a national referendum that approved his plan to create the Asamblea Nacional Constituyente that would draft a new constitution. ANC elections in July then resulted in Chavez's Polo Patriotico, a coalition of small, mainly left-wing parties, winning 120 out of 131 seats. Effectively shut out of the new political order, the leaders of Accion Democratica and Copei resigned. The old Congress was put on indefinite recess.

"In the business of manipulating democracy, he makes Fujimori look like an amateur," says Robert Bottome, head of the ***economic*** consultancy VenEconomia.

Then, last December, in another referendum, 71 percent of the voters approved a new constitution. The constitution extended the presidential term to six years, allowed consecutive terms, permitted increased state intervention in the ***economy***, reduced civilian oversight of the military and strengthened the rights of ***Venezuela***'s indigenous population. It dissolved the old bicameral Congress, replacing it with a new Asamblea Nacional, and installed a new Supreme Tribunal of Justice in place of the old Supreme Court.

The constitution includes some new powers for the public, as well. It gives voters the right to remove elected officials and annul most laws with an absolute majority. It also provides enhanced social security and labor

benefits. (And it contains a strange clause mandating that the press provide "truthful information.") But its main effect was to take the old political system apart. The old Congress disappeared for good in January 2000, and the ANC approved Chavez's nominees to head key institutions, including the Tribunal of Justice, the central bank and the national auditor. Two hundred judges were fired on corruption charges, and Chavez assigned the army a big role in national redevelopment.

By July 2000, when the new constitution called for a round of presidential, legislative, gubernatorial and mayoral changes to formalize the new order, even some of Chavez's intimates had turned against him. Disillusioned with Chavez's attempts to concentrate power and with what he called the president's "messianic" tendencies, Francisco Arias, who had been his second-in-command during the 1992 coup, ran against him for the presidency. Military intelligence chief Jesus Urdaneta, another coup co-leader, quit his post and supported Arias, furious that Chavez had backed an investigation into alleged human rights violations by the army in the aftermath of the floods. Arias and Urdaneta also accused Chavez adviser Miquilena and Foreign Minister Jose Vicente Rangel of corruption.

"We had a political misunderstanding," says Chavez philosophically. "If you analyze the history of any country, you will find people who were together and just separated, since Christ and Judas. Bolivar and Paez were together for many years, in battle risking their lives, and then ended with confrontation."

Chavez won the election comfortably, ensuring at least six more years in office. He has wasted little time in continuing to centralize power. Most recently, he called a referendum for this month to throw out the top brass at the Confederacion de Trabajadores de ***Venezuela***, the country's biggest union. Representing ***Venezuela***'s 1 million public sector workers, the CTV was traditionally an important source of political patronage for the opposition Accion Democratica party. Now Chavez wants to bring all the country's workers under the umbrella of his newly created megaunion, the Fuerza Bolivariana de Trabajadores.

More ominously, the Chavez-controlled national assembly passed in November an enabling law that for a period of one year permits the president to implement legislation without seeking its approval. Other Venezuelan presidents have received similar powers, though none quite so far-reaching.

To listen to Chavez, all of these moves follow a well-thought-out plan. First take care of politics, then ***economics***. "Alter this year and a half, a series of institutions have disappeared, and we are seeing the creation of new ones. Here in ***Venezuela*** we now have five powers: executive, legislative, judicial,

citizens' power and electoral power," says Chavez. "Now we are beginning a new phase. It is a matter of beginning the ***economic*** reactivation, the transformation of the ***economic*** model from an oil ***economy*** into a diversified, sustainable, modern and humanist ***economy***."

Chavez plans, for example, to use this new decree-making authority to push through what he considers the second phase of his program: a raft of ***economic*** and social measures, including laws to promote small and medium-size enterprises, to distribute public land or tax idle land and to repeal a 1994 financial emergency act that had aimed to restrict central bank independence.

Some of these measures could be positive, but none of them is likely to boost ***economic*** performance in the short term. And the legislative carte blanche Chavez received from his new national assembly has made local businessmen, foreign investors and diplomats, especially those in the U.S., extremely nervous -- especially coming, as it did, right after Castro's October visit to Caracas. The Washington Post and The New York Times both ran hand-wringing editorials about Chavez's ambitions, with the Post calling him the next Castro.

Chavez dismisses such criticisms as ignorant, when they are not part of some ill-defined plot to oust him. "Those who are behind these newspapers and editorials are trying to disturb relations between ***Venezuela*** and the U.S. And this forms part of a bigger plan, a conspiracy against ***Venezuela***," he says.

Chavez definitely has made good on his vow to raze ***Venezuela***'s former political institutions. But so far that hasn't translated into significantly better living standards. When he took office, Chavez announced an antipoverty program called Plan Bolivar 2000 that mobilizes the military to rebuild roads, schools and public buildings alongside civilians. The military also helps run markets that sell food to the poor at wholesale prices and a system of new "Bolivarian" schools that offer students three meals a day and basic health care. The schools have attracted 600,000 children to date, and Planning Minister Giordani believes they are partly responsible for a rise in consumption among the poor.

In September Chavez announced a 100-day, $2.1 billion spending program, financed by a revaluation of central bank foreign exchange reserves and administered by Plan Bolivar 2000, under which infrastructure projects and social programs are to receive some $800 million each. Plan Bolivar allows Chavez to bypass the government ministries and other agencies, since it puts control over the purse strings directly in his hands.

Among Chavez's pet projects is jump-starting the formation of small and medium-size businesses. He has created an ***economic*** council to identify opportunities and work with entrepreneurs, and he is especially keen on creating jobs in the interior, to encourage the poor to leave the urban slums. Among other initiatives, example, he launched the Banco del Pueblo to provide credit for small or family businesses, backing it with $30 million worth of government financing.

But beyond such initiatives, Chavez has not exactly rocked the ***economic*** boat. If anything, he has been conservative. He talks seriously about increasing tax collections, and despite last year's recession, he did not increase public spending. The budget deficit actually shrank from an expected 7.8 percent of GDP to 3.1 percent. In April he awarded public sector workers a 20 percent raise -- not bad considering inflation was running at 15 percent, but niggardly compared with the largesse of his predecessor Caldera, who gave them a 100 percent raise in 1997. Chavez also created a macroeconomic ***stabilization*** fund in which excess oil revenues can be hoarded against lean times. The fund, into which half of oil revenues in excess of $9 a barrel is paid, is expected to have $4 billion by year-end.

The 2001 budget, which assumes GDP growth of 4.5 percent and inflation at 10 percent, does show Chavez's willingness to open the spigot a little. The budget would hike spending by 29 percent and provides for use of $2.7 billion from the macroeconomic ***stabilization*** fund to cover social spending and wage increases.

But many analysts doubt Chavez will spend the money in the allotted 100 days. "He won't do it," says Efrain Velazquez, an ***economic*** consultant at Azpurua, Garcia-Palacios & Velazquez in Caracas. "Chavez talks a lot, he's very populist, but he's a conservative president." Adds a former senior central bank official: "People have learned that there is a lag -- it could be an indefinite lag -- between rhetoric and action."

Chavez gets some credit for deciding to move ahead with liberalization of the gas, telecommunications, aluminum and electricity sectors, recently opening the gas and telecom industries to private investment. Says Tal Cual's Petkoff: "He has been pragmatic on ***economic*** policy. He inherited privatization of aluminum, electricity and gas and has kept them all. So far he has not done anything catastrophic."

A comprehensive telecom law, passed this summer, allows foreign investment in ***Venezuela***'s fixed-line and long-distance markets and ends the monopoly enjoyed by Cantv, the national telephone company, which is owned in part by Verizon Communications. The majority of the $2.8 billion in foreign direct

investment that ***Venezuela*** attracted in the first half of 2000 comes from telecom investment. A new electricity law prompted U.S.-based AES Corp. to purchase 87 percent of Electricidad de Caracas this summer for $1.7 billion.

But he has also not crawled through the window of opportunity that high oil prices have opened for structural reforms. "In the long run we need three things," says Felipe Perez, an economist and unofficial government adviser at the Instituto de Estudios Superiores de Administracion, the Caracas business school. "We must invest in human capital, we need industrial diversification, and we need to increase financial intermediation."

Perhaps the most important of the three is diversification. Oil accounts for 70 percent of ***Venezuela***'s exports, 60 percent of government revenues and 30 percent of GDP. But if anything, he has bolstered the country's dependence on oil. Although he certainly cannot claim credit for the jump in world demand that followed the global recovery from the Asian crisis, he has used higher oil prices to raise ***Venezuela***'s profile on the world stage, working hard since his inauguration to revive OPEC's fortunes. At that time, with oil at less than $10 a barrel, OPEC was increasingly regarded as an irrelevant organization. ***Venezuela*** was the black sheep of the club for exceeding its production quotas by almost 1 million barrels a day, far more than any other member. In his first year in office, Chavez slashed average production by 300,000 barrels a day. That helped bring ***Venezuela*** back into favor with its oil-pumping colleagues.

Then, early this year, he persuaded OPEC members to adopt a price-band mechanism designed to keep oil in the $22-to-$28 range. "We believe that the band is fair, and we are contributing what we can to ***stabilize*** this price," Chavez says. In recognition of his efforts, OPEC named Ali Rodriguez, Chavez's minister of Energy and Mines, as its secretary general last month.

Over the summer Chavez visited OPEC heads of state, including Qaddafi and Saddam Hussein, to encourage them to cooperate with one another. His moment of glory came in late September, when he successfully hosted an OPEC summit -- only the second time in the organization's 40-year history that the leaders had convened.

Chavez was in his element. The capital had been spiffed up for its august visitors, the highways repaved, the street vendors driven away. Speaking without notes as always, Chavez invoked the names of Allah, Jesus, Indian philosopher Krishnamurti -- and, naturally, Bolivar. The burden of his lecture: OPEC nations should not be made the scapegoats for world poverty. "Do you know how much a barrel of Coca-Cola is worth?" he asked. "A barrel of Coca-Cola is worth $74.70 -- 303 percent compared to a barrel of oil." Chavez

concluded grandly: "We cannot allow that, once again, we be indicated as those who are guilty for the imbalances of the world. The guilty are elsewhere. We are victims of the imbalances of the world ***economy***."

His grandstanding was short-lived. Barely two weeks after the summiteers returned to their faraway homes, 30,000 Venezuelan oil workers struck, incensed that their long-expired contract had not been renegotiated and demanding a pay raise. Days later PDVSA announced that it had agreed to a 60 percent wage hike, and Chavez left it in place. But he fired the PDVSA president, replacing him with active-duty General Guaicaipuro Lameda -- a man whom Chavez has known since they were cadets together at the Caracas military academy, who was formerly head of the national budget office and who readily admits that he knows nothing about oil.

Such lack of experience is nothing new for PDVSA presidents, but some observers fear that the government is strengthening its control over ***Venezuela***'s biggest and most important company. PDVSA has always been caught between the government's desire to siphon off an ever-larger share of its revenues and management's efforts to invest for the future and run a profitable enterprise. Lameda, a U.S.-educated engineer, says he wants to make PDVSA more efficient. One of his first acts as president was to announce that PDVSA'S 2001 dividend to the government will be $3.5 billion, up from this year's $2 billion. "I have to make money quick and easy and preserve the future of the company," says Lameda. "I want to make people feel they work in the best company, and I don't need to know about oil to do that."

NOT SURPRISINGLY, THE DISENFRANCHISED members of ***Venezuela***'s old political and business elite are howling for Chavez's head. Big business feels left out by his ***economic*** policies. He has been unswayed by their demands for tax breaks, arguing that ***Venezuela*** needs to collect more, not less, in taxes. ***Venezuela*** currently collects less than 10 percent of GDP in taxes, compared with 40 percent in France and more than 30 percent in the U.S.

Chavez has also ruled out a currency devaluation (a measure previous governments used to keep business happy during ***economic*** downturns), even though high oil prices have boosted the exchange rate. ***Venezuela*** employs a crawling peg system whereby the bolivar depreciates against the dollar at a fixed rate. But this policy has come at the cost of crippling domestic investment. Local firms struggle to remain competitive by cutting labor costs or by importing intermediate and even final goods, becoming, in effect, marketing firms. Vicente Brito, president of Fedecamaras, the Venezuelan business federation, estimates that his members have cut 500,000 jobs over the past three years.

Investors and analysts complain that the administration suffers from inexperienced management. Chavez has surrounded himself largely with old friends, some from the military, whom he trusts but who have little qualification for top government jobs. Planning Minister Giordani, now 58, is still the rumpled, bearded academic. In his view the aim of ***economic*** policy is to pay off what he calls the social debt -- that is, invest in education, health and infrastructure to help the poor. "With strong political leadership," he says, "the ***economy*** can be reactivated and social problems solved within ten to 15 years."

The business community worries that Chavez has been reluctant to seek outside input on ***economic*** policy. "The government doesn't understand the importance of the private sector. We have to change the language of confrontation," complains Fedecamaras' Brito. "We are uncompetitive, and we cannot solve our problems by selling oil and importing goods." Others suspect the government wants to replace the business elite. "The government wants new business leadership, so it doesn't care about the big companies," says Ruth de Krivoy, central bank president under Caldera and now head of Sintesis Financiera, an ***economic*** consulting firm in Caracas.

Members of the business establishment are the ones most likely to voice fears that Chavez is laying the foundations of dictatorship. "Everything depends on one variable," fumes Antonio Herrera, vice president of the Venezuelan-American chamber of commerce in Caracas. "The whole political system depends on one person, and the whole ***economic*** system depends on the same person."

Ricardo Penfold, former chief economist at the Caracas office of Spain's Banco Santander Central Hispano, was so concerned about the possible consequences of Chavez's autocratic leanings that last month he packed up his family and moved to New York to take a job with Goldman, Sachs & Co. "Chavez doesn't delegate," he says. "He doesn't understand the need for opposition, strong institutions or checks and balances. When he loses popularity, he'll have no party to rely on."

For now, perceptions of Chavez remain largely divided along race and class lines -- like the country itself, though this is a subject few Venezuelans are comfortable speaking about. The majority of the population are dark-skinned, like Chavez. But the top echelons in government, business and finance are white.

Venezuelans have a habit of turning to messianic leaders for social, political and ***economic*** renewal, only to be disappointed. Chavez is the latest in a long line. As likely as not, Chavez will find himself trapped in the patterns of

the past -- his vision, like so many others', destined to fade into history. As pressure for results inevitably mounts, Chavez -- and his countrymen -- must beware of his succumbing to authoritarian tendencies and undermining the very reforms he has sought to implement

PHOTO (COLOR): Hugo Chavez

PHOTO (COLOR): Newspaperman Petkoff: "Chavez has to fight to not be pulled down by his own authoritarianism"

PHOTO (COLOR): Planning Minister Giordani: "There is an external Image of Chavez that doesn't correspond to the internal"

PHOTO (COLOR): Chavez with world leaders, from left to right, Fidel Castro of Cuba, Saddam Hussein of Iraq, Muammar Qaddafi of Libya and Crown Prince Abdullah bin Abdulaziz al-Saud of Saudi Arabia: The Venezuelan president has raised the profile of his country with his aggressive foreign policy, while raising hackles in Washington

PHOTO (COLOR): Challenging Chavez: A supporter of Fidel Castro is protected by police during protests by middle-class workers and teachers who used the occasion of the Cuban leader's visit to demand overdue pension payments and wage increases

PHOTO (COLOR): A benighted land: Priests In Caracas bleu the coffins of some of the thousands who died in mudslides and flooding in December 1999

By Deepak Gopinath

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